REQUEST: Regarding letter to Mr. F. S. Topor from C. S. Boren.

1. Why no date?

2. Why no signature of Executive Vice President - Marketing, Network and Planning?

3. Provide copy of actual signed letter sent to Topor.

4. Provide documentation from lines of Business organizations which underlie item 3 in letter.

RESPONSE: 1. It appears that the date was inadvertently omitted from the letter. Typically, executive letters are not dated until after the letter has circulated among the levels of management for concurrence and been signed by the executive(s). In this case, the date was inadvertently omitted after the letter was signed. However, the concurrence sheet (see Attachment 1) indicates the letter was sent in November, 1989.

2. The correspondence which had been provided earlier to members of the audit team was actually a copy of the letter before it was signed by the Executive Vice President-Market, Network, and Planning.

This particular copy was obtained from the Procurement organizations' files. The Procurement file copy only had their Vice President's signature and did not include the Executive Vice President's signature from the other involved departments.

3. See Attachment 1 for a copy of the actual signed letter.

4. This was a broad and ambiguous question. However based upon our interpretation of the question, selected representatives from the lines-of-business organization (including those most likely to have responsive documentation) searched their files and found no responsive documentation.

INFORMATION PROVIDED BY: Frances Dennis
Operations Manager
675 West Peachtree St.
Atlanta, GA 30375

INITIAL SWITCH COMPARISON
1989 VS 1991

TECH

	5E Before price reductions 1989 SWITCH	5E After price reductions 1991 SWITCH	
ANALOG LINES	[redacted]	[redacted]	
DIGITAL LINES	[redacted]	[redacted]	
ISDN LINES	[redacted]	[redacted]	
TOTAL LINES	[redacted]	[redacted]	
TRUNKS	[redacted]	[redacted]	
ANALOG LINE UNITS	[redacted]	[redacted]	
DIGITAL LINE UNITS	[redacted]	[redacted]	
SWITCH MODULES	[redacted]	[redacted]	
SOFTWARE RELEASE	5E5	5E6	
MAJOR SW FEATURES	CENTREX CCS7	CENTREX CCS7 ISDN TOUCHSTAR RINGMASTER	
			SEE NOTE 1
LIST PRICE HARDWARE	[redacted]	[redacted]	[redacted]
LIST PRICE SOFTWARE	[redacted]	[redacted]	[redacted]
LIST PRICE MATERIAL	[redacted]	[redacted]	[redacted]
NET PRICE HARDWARE	[redacted]	[redacted]	[redacted]
NET PRICE SOFTWARE	[redacted]	[redacted]	[redacted]
NET PRICE MATERIAL	[redacted]	[redacted]	[redacted]
% EFFECTIVE DISCOUNT	[redacted]	[redacted]	[redacted]
COST PER LINE	[redacted]	[redacted]	[redacted]

This is comparable with what Pacific Bell & AT&T would [illegible]

NOTE 1 : THIS COLUMN EXCLUDES ISDN HARDWARE AND ISDN, TOUCHSTAR, AND RINGMASTER RTU FEES

Prices were coming down

The purpose of this Table (pg. 5 Mannion) is to demonstrate that hardware prices did not increase

Mannion Handout

Interview of C.S. Boren
by M. Majoros and D. Craig
12/13/93

Don Craig
(Unidentified Speaker): December 13, 1993. Interview with Sid Boren, with Don Craig, Mike Majoris, Michele Young, Steve Manion. Regarding BellSouth's negotiations with switch vendors during the 1989-90 time frame.

Michael Majoros
(Unidentified Speaker): I'd just like to say that the purpose of this interview is to help us understand some information and correspondence that we've received regarding the 1991 AT&T price restructure and I'm just gonna go straight to the questions.

Q: In your capacity, I believe you were the Vice President of Procurement of BSS back in that time period

A: Yes, that's correct.

Q: And how would constrained expense budgets impact BellSouth's negotiations with switch vendors?

A: Constrained expense budgets? I ...

Q: Yes Sir. Or would constrained expense budgets impact BellSouth's negotiations with switch vendors.

A: Well, the reason I had asked for clarification I guess is the term constrained expense budgets is one that I'm not familiar with the terminology of the company that you're referring to. In an attempt to have a lower expense budget we have a budgeting process, we don't call it a constrained expense budget, but, most of the switch purchases... switch purchases drive both expense and capital, so what you try to do is look at the total cost of the machine which involves both expense and capital. Try to move to product life cycle type cost rather than trying to analyze whether it's expense or capital.

But the motivation for the purchaser is to always try to get the lowest price if that's what you mean.

Q: Alright, so would constrained, uh, tight expense budgets have an impact on your decisions, on your negotiations with the switch vendor within the context of the total life cycle approach?

A: Well, only... I mean its... the negotiation process with any of our vendors is an attempt by us to make the cost of the product that we buy as low as possible. And I've been in the company for 25 years and every year we have a budget, an expense budget and a capital budget and I guess maybe I'm not understanding the nature of your question or something, but obviously we try to get as good a price as we can. There was no single event... I don't... maybe I'm not understanding the question properly.

Q: Alright. Uhm, let's move on to the next one then. Would rate of return regulation have an impact on your negotiations with switch vendors?

A: Well, no, I mean again, the rate of return regulation is a way that, I'm just thinking out loud, it's the method that all regulation ultimately is based on. We've got a variety of plans around the company in the states that we're in, but in one way or another they're all tied to a rate base rate of return calculation. But in terms of how that's related to the negotiation of a switch, again it gets back to an attempt to get the lowest possible cost for the switch and that's related to, I guess in a way, the rate base rate of return regulation because expense is certainly a, and capital, are both products of that, but again, the question is puzzling.

Q: Alright, I'll try to move along here as quickly as possible.

A: I'm trying to be responsive, I think maybe we have a slight different terminology or something because it's really, I don't feel like I'm answering your questions properly, and yet, anyway, let's continue.

Q: How would, and these are hypotheticals, I'm just, how would tightened accounting rules requiring the expensing of all RTU fees impact BellSouth's negotiations with switch vendors.

A: Well, the connection wouldn't be direct, I guess, and I don't understand again the connection. In the negotiating process for purchasing products the things you've mentioned, are not directly related. In the negotiation for the purchase of a product, you've got competitive situations, you've got history that you can look back on, you've got a bid process, you've got business cases that you prepare and all of that but none of them are related to your line of question directly that I'm familiar with.

Q: Okay. Would tariff concerns impact your negotiation with vendors and specifically, one group of tariff customers versus another or one type of tariff versus another.

A: I'm not sure I know what you mean by tariff considerations but in the negotiating process we never got involved in the tariffing process.

Q: Okay.... I'm cognizant that we only have an hour and that's why I'm trying to do this as quickly as possible. Could you explain to us what the background was, and I take it you were the chief negotiator, what the background was prior to the restructure and what things were going on in and outside the company which would have precipitated the need for the price restructure that AT&T did.

A: Well, a couple of things. Chief negotiator has different connotations so let me respond to that first. My organization was responsible for the procurement process. I didn't do any negotiating myself. But my organization was responsible for it so maybe that's a technicality but again I don't know the context of your question so that, maybe clarify that first. The price restructure, maybe we better, I don't really relate to exactly that event, maybe you need to brief me or they can exactly what you're referring to.

Q: Uhh, What I'm referring to is basically these, we have these, some of this correspondence between you and Mr. Topor and it resulted in a price restructuring, then I guess ultimately a purchase of switches.

A: When you say restructure, what does that mean to you. I mean, I want to make sure of our... I don't know the term restructure, what definition of that?

Q: Uhm, Well, I will say that to me what I see in these documents is it means that what AT&T said it was going to be is a shift in price from expense to capital.

A: I don't, I don't, I don't understand that kind of distinction I guess is why I wanted you to define the term price restructure because in our discussions with the vendor community including AT&T our motivation is always to reduce the price, consistent with what their competition is doing, what our markets are doing, and the term restructure or shift from expense to capital is not an event that is meaningful in my world.

Q: Do you try to fit the negotiations or your vendor requests for quotes to your expected budget for expense or capital?

A: Not, not, ... The way we go about it not like that. Now that may be an end result, but that's not the process we go through. The process we go through is we have in our engineering organization continuing studies about replacement and growth needs, which you're very familiar with, then we have in the procurement organization ongoing discussions with the vendor community with regard to the price performance curves in the industry. So we try to group switches, we try to make vendors compete with each other, we try to package purchases, we disaggregate sometimes purchases. We try to do everything we could, in those times, and I'm sure they continue to, to get the price performance for the product as low as we possibly can. Then that becomes a more or less fixed amount. Then you have your studies over here that show the breaking point for when you can replace or add based on that particular price. But as far as starting it out the way you're describing, we don't; and it's not associated in the way your question set it up. I mean, it's just not the way to do it. So whether it's expense or capital is a byproduct, not a negotiating point, I guess, is the answer.

Q: One of the things that was evident from these documents, what Steve and (__________?________) were talking about is one of your goals apparently was to reduce, having AT&T to reduce it's software and growth costs...

A: Yes.

Q: ... above all else.

A: Not only AT&T but other vendors as well. We felt like we were becoming a product of the Gillette razor syndrome, give us the razor for nothing then sell us all the blades you can at exorbitant prices. So, we... In the world of technology that we live in, the software pricing becomes very very important because that's the platform that most of our products and services are ultimately based on, so I was very concerned, still am as a matter of fact, about right to use fees and recurring software costs. It's a really, we have to be real careful that we don't mortgage our future by locking into exponentially increasing software costs, because they should be decreasing as the software research and development is written off.

Q: Are you familiar with this August 24 letter to Mr. Grieser and, you didn't sign this, it's signed by E. W. James.

A: Jones.

Q: Jones, pardon me.
A: I would have to read it, I haven't seen it.
Q: He makes a reference here. And this is about the first, he says that, and here we're talking about software cost, and in determining our, and this is that unified list of priorities, he says, in determining our interest in priorities in these feature no consideration was given to the cost of development. Does that mean that, uh, what does that mean, do you know?
A: I don't know. I mean, I'm sure it would become evident in the context of the whole letter but I don't know, I haven't seen the letter until you just read it to me.
Q: You haven't seen this letter?
A: Well I mean I may have but I don't remember it. When was it written?
Q: It was in 89, August 1989.
A: I haven't seen it, if I saw it it was in 89 and I don't remember anything I saw in 1989.
(Laughter)
Q: Here's a letter from, I might as well ...
A: Don has since retired even. A good friend of mine.
Q: Let's get rid of these - dispose of these letters. This is a letter to Mr. Topor from you.
A: Uh-hmm
Q: And item number 1 states that features in the 5E have been found to be, cost frequently up to times as much similar features on the 1A. Does that mean that you're unable

to prove in economically a 5E based upon those feature prices?.

A: It could be. You know, the replacement costs or addition costs would be based on the total cost which would include the features I'm sure, but it would be a total economic analysis not just based on feature costs.

Q: Now item #3 says that feature software pricing is often higher than our lines of business organization finds acceptable for competitively marketing services in BellSouth. We had asked for documents supporting that statement from the, from that organization, and we're told that no documents were available. Do you, is this, was this all verbally done, this infor...

A: I don't, I don't, I, no, I mean it would have been I'm sure a combination of discussions, impressions, conclusions that we all have made. The statement, I'm not, I don't remember exactly y'know the time I wrote the letter but it is a problem in our industry to, this is kind of a funny industry in a way, but, if you're going to market a feature like one of the vertical features that we sell like three way calling or something like that, then when you get to the point that you do the cost studies to determine what the pricing has to be for the purpose of filing the tariff, then, all of the cost information is loaded into that and if three way calling has, if the customer has other alternatives to that, then market research would show where his decision price point would be, and there you would then say, well, unless we can come to

market with that priced in this particular range, the product's not going to be successful. So, conceptually, I understand what we were referring to, but I don't have any piece of paper with that analysis on it today. But it sure is true.
Q: Here's one of the letters from back to you from Mr. Topor and this paragraph talks about BellSouth's well documented concerns about the 5ESS switch's competitive position on first costs, and also at the end of this letter it talks about your previous letters on the availability and cost of five ESS special features. And, one of our concerns here, sir, is that we feel that we, y'know, there seem to be some documents that we're not getting in this area, and I'm wondering if you are aware of any other documents that we have not received in this area.
A: Well, I'm not, but the only two documents I'm familiar with are the two you've shown me. I haven't, I can't personally testify one way or another to what documents were available. I don't know what you're looking for, so...
Q: We would have been looking for documents concerning the well documented concerns and then the previous letters mentioned on page 3 of this letter.
A: I don't know. I know that we've, that I've been concerned about that very subject from time to time, but I don't have any documents in my file one way or the other. I figure y'all did a search, didn't you. (Young: Um-hmm.)

Q: This letter from Mr. Topor to you on page 2. It says the mix between capital and expense prices for five ESS switch will change with expense decreasing and capital increasing, but the average bottom line switch price will remain consistent with the previous five ESS price plan. He also, down here, said he completely understands your concerns about the effect that the price of our features have in regard to your ability to generate tariffs that are within the range of your customers willingness to pay.

A: Yeah, that's the thing I went through a minute ago.

Q: And they were, so that was indeed a concern in your negotiations with, um?

A: It was a concern in the letter that I wrote just like I said it. If you look at the way we offer products, we buy a switch and then we have generic upgrades with new software packages that we pay certain amounts of money for, and then we take a feature and when we do a cost study on that particular feature, which picks up a part of the generic and part of the switch capital cost and then it gets an approved methodology that we have with our regulators and then that gives you underlying cost of the product which we then come up with a price and file a tariff. Now, I've always, and still am, concerned that in a world that has many many CPE type applications that we have switch based solutions that are competitively priced, but our, my concern was not whether it shifts things from expense to capital or capital to expense, because my concern was that we decrease the cost to the switch, making our products more competitive because they would have a lower underlying cost and therefore would be able to put to the market with a lower price. But, uh, I mean, that was the intent, and I've had many discussions with these fellows about that, a very reasonable concern for a company like ours to have.

Q: Do you think it's possible that AT&T could as a result of this, this plan or price restructuring, how ever you'd define this, be pricing it's software below cost, below it's development cost.

A: Looking at what it's done, I would doubt that very seriously. But I don't know personally but I wouldn't think so.

Q: The concern would be ...

A: The history, the history of computers and stuff is in the other direction. Price the hardware real low so you can get the hardware in to the customer and then after the customer buys the hardware he's sort of wedded to purchasing the software so the motivation is the other way around. For any hardware or software manufacturers. This company, in his letter here, our desire was to get the total product life cycle cost to a minimum, which was expense and capital over a period of time, and we did indeed do that. If you look at the price we're paying per line today compared to what we were paying in 1989, 88, 87 there've been orders of magnitude reductions based on this kind of negotiating, where we do with all vendors one against the other to try to get them to move their prices down. These guys lost alot of market share during that period of time. When the 5E first came out it was not competitive, price-wise, and they had to bring the prices down rather dramatically over time so we were, and I am, very proud of these kinds of negotiations because our company and the people that buy our service have benefitted from them.

Q: Struck a lot of these questions. (Laughter) And as a result of this, we, the company signed a switch purchase agreement for the Atlanta area and Mr. Manion told me this morning that that was a part of a much larger deal, AT&T got probably the most out of the deal, but the other two switch vendors got pieces of that.

A: It was a pretty remarkable negotiation. The main beneficiary was us.

Q: Do you, would you know what in general swung the deal most heavily in favor of AT&T?

A: They were very aggressive in their pricing because we had introduced the concept of the third vendor. That was our strategy all along was to use the third vendor to try to drive the prices down. We knew somebody would blink and these guys blinked pretty substantially. We had a pretty much of a duopoly before that. In a duopoly, if you're the purchaser, you can use a third person or third company in this case coming into the negotiation advantageously, and we did pretty successful. That did not happen all over the country. We were able to get some pretty aggressive prices.

Q: The bottom line is they came in at a lower price for the majority of the switches.

A: I don't remem...

Q: Lower total cost, I'm just trying to...

A: Yeah, I don't remember the details of who got exactly what percentage, but I do recall that they aggressively priced and one of their competitors, if I remember right, did not at that time, wasn't that right. One of their competitors lost market share in this negotiation. We picked up a little bit with the third guy and the majority went to these fellows because they responded so aggressively. Is my memory ...? (Manion: Yes.)

Q: Was this... This wasn't exactly one sided all in your favor, all in Bellsouth's favor; what did AT&T receive, other than a substantial piece of business

A: Kept their factories running.

Q: Continuation of them actually being in the business?

A: Yeh. The problem these guys have and the reason a purchaser can take advantage of it is they have to level load the factory and they got to have a pretty consistent volume, and if you can, or if you're good enough or lucky enough or whatever, sometimes you can get a very aggressive behavior on price because they see their factories not being loaded to full capacity and BellSouth is a big account for any of these vendors, and they can't, if we can position it right, they can't walk away from our situation because we're so big. One of the benefits of volume purchasing. AT&T and BellSouth have had a good relationship over the 10 years or so we've been doing this. Sometimes a contentious relationship based on price or from time to time performance; their quality has not always been what it should. But, over the years they've been an exceptionally good vendor for us. Their machine is of high quality, their pricing has been pretty aggressive, and I would imagine their market share here is probably what is it? Do you know?

(Manion): In this RQ or in BellSouth's total?

(Boren): No in total, what would you guess? percent?

(Manion): ¾ of our lines.

A: (Boren): Yeah, and so we have a good healthy relationship with them which they would not want to see go away. It's too big. Because of that, when we write a letter the way I did, complaining basically about their pricing, it gets their attention. They worry about it because we're so big. Now we don't do it lightly, because if you're a good purchaser, you don't just without reason flail about. You sit down and plan your strategy and try to execute it. That's what we did on this case. It was very successful for us, this particular negotiation.

Q: Uh, this same letter, lemme, refers to the concept of revenue sharing somewhere along the line. Here we go. Also we continue to be interested in working with you to evaluate and implement a way to take advantage of revenue sharing. Now we had an explanation here of what that might mean in response to our data request 118F and it is that we believe that in this AT&T proposal is referring to some kind of deferred payment schedule for 5ESS software right to use fees based upon BellSouth's market penetration. Is that what you think they meant?

A: I don't know specifically, but they're not in the letter. There's been a couple of concepts advanced by different vendors about return of revenue sharing, and generally it's different ways that purchasers and sellers have of sharing the risk in the market, particularly if it's a new market. We've had discussions over the years with AT&T and others about a way to do that. We've never successfully worked anything out because it's complex and gets into, well you're an accountant supreme, so you understand the difficulties when you get into something like that. But basically all it means in country boy language is we agree on a price, take it to market and if it's successful, then we have some kind of a risk sharing with the vendor. It can work in some cases, but we never have been able to work it out.

Q: Well, what I was, see what, the way I interpreted this explanation was that it was referring to some kind of an arrangement where the cost would be matched to revenues in those new markets.

A: What kind of revenues? I don't know how that would work.

Q: Is it BellSouth's policy to pay for right to use fees prior to deployment of any features in the network?

A: Yeah, I think the right to use fees are generally based on a total package of feature functionality not just on a specific product. A generic in one of these switches is a very large piece of software. When you have a generic update it usually sweeps under it lots and lots of things, some as simple as some mistake that's been found in the software. So we buy software in different ways, but I don't know of a revenue sharing situation. Do we, did we have one during that period? (Manion): No, The only thing I can even think that comes close to it is some software features are priced on per line basis, for, if we only need 100 lines, we only have to buy 100 lines of it and if it's a successful feature and we get a heavy penetration then all of a sudden we need 10,000 lines of it, we have to buy more lines, so as we increase our penetration in the feature they would also get some revenue when we buy on a per line basis, and that would be a risk sharing. Instead of having to purchase the right to use for the whole switch at one time, not knowing if we can sell that particular feature or not, we can deploy it with a minimum number of lines, see how it goes, and if we're able to sell it, we buy more lines and (__?__) more lines and they would get the right to use fees everytime we buy more lines. That's the only thing I can think of that would even be close to revenue sharing.

(Boren): And that's not classical revenue sharing, at least in the way I think of it. We've, I've always hoped we could find situations where we could, where we could have some kind of risk sharing, but we haven't been able to come up with a formula yet.

Q: Mr. Boren, the reason we're here is because somehow we laid our hands on this document which is this AT&T presentation which was sort of in the middle of all this correspondence and I guess at the beginning was the negotiations, at the end was the switch deal, and this presentation has these words on pages 3 and 4 and it calls them BellSouth issues and it talks about - it says you're going to do, or AT&T was going to do what it said it was going to do in all these letters, that is shift expense, shift from expense to capital. And our concern is that it seems like whether or not total cost went down, there is some shift that had regulatory implications here for pricing purposes, and, in fact, this talks about rate base profit regulation on capital investment and the FCC tightening accounting rules to require expensing of (_____?_____), so here we are with this, and Steve Manion has steadfastly reported that they didn't do what they said they were going to do so all of this is a non-issue. I'm asking you is this, were there, are their statements accurate? Were these BellSouth issues back in those negotiations?

A: Not to my knowledge. If I look at the piece of paper, expense budgets are tightly constrained. In my 25 years of experience, every year the expense budget is tightly constrained. That's in any business has all the time a tight expense budget. Profit regulation based on capital investment. That's rate base rate of return regulation in a different sort of slant on it than I would put on it, and of course the accounting change we're all familiar with, so the statements on the face of them are true. If the implication that, and I haven't seen the rest of the document, but if the implication is that there was some strategy with AT&T for a particular purchasing strategy related to that, it's not true.

Q: Well, it would be these, plus this one here, "the five ESS allocates too much of its cost to BellSouth marketing's most competitive services ESSX," and that's where I, that's my concern. I think that they said these are your issues and you're telling me they're not your issues.

A: Well, not in any sort of way that is a conspiracy to make things shift from one account to another. That's not true. As I know you are more aware than I, because of your profession, this, if you look inside AT&T or any other company, the pricing strategy is something they have to worry about. Far removed from me as a purchaser. Now if they've looked at me and deduced that these are my concerns, I can't refute that, and if that's what they think, then that's what they think. All I can report to you is what our own strategy is, which we talked about previously to some extent and can do to more extent. But as far as any thought on my part of an expense or capital shift for some competitive reason, that just wasn't the case.

Q: You think the results of this restructure is that now less cost is being allocated to those customers than would have been otherwise?

A: I don't know. I really don't. The product of this negotiation was an overall reduction in prices, both expense and capital. Now when you go through that calculation and reflect what these prices are, I don't have a sense for how that come out, because that was never, that was not a factor in what we did. So, y'all may have gone through the calculation and know what the answer is, but I have not.

(Manion): You talking about, you mean, the kind of stuff I showed you with the growth costs?

Q: Well, what I'm asking here now is if I, is that, is as a result of this price restructure that less cost is being allocated to those customers than would have been under previous price structure. I don't we've addressed that.

A: (Manion): Well, BRCSII, which is the package in the 5E switch that has most of the ESSX features. One of the things they offered there is it went from a line to a line, which lowered software costs. And we showed you that in a...

Q: So that's the answer, is yes?

A: (Manion): That for BRCSII package, which is our ESSX software right to use fee, there was a significant reduction in price.
(Boren): And my discussion is at a level above that, where what I was seeing was a total reduction in cost of the purchase. I didn't get into which package was up and which package was down. There was an overall reduction in the per line cost of software and hardware, and when you put them together an overall reduction in the total price of the switch. That's what I saw and what I reacted to.
(Manion): I mean if you flip back into the pages of that it shows you where the BRCS is now [redacted] a line and it used to be [redacted] a line (______?______) in that presentation AT&T (_____?_____). It's in the back pages.

Q: Well, so these were, I guess, I don't have too many more questions, they either were or were not BellSouth issues. AT&T had said they were BellSouth issues. Seems to me, I will just ask you, did you achieve some regulatory goal other than an overall reduction in the cost when this deal was struck.

A: Not to my knowledge. The regulatory goal, as you put it, just simply in the years that I did this job, was not my concern. I don't know how to put it any plainer than that. I didn't think about, I didn't write about it, I didn't talk about it. It just wasn't a factor. It, my, this job is a businessman's job, not related to the regulatory situation. It's just a businessman's job. We had a market, product and a purchasing opportunity. Now, I don't know the regulatory impacts discretely by product of the negotiations we did because it wasn't a, it wasn't involved in anyway. So I didn't know it before and I didn't know it after. What I was after was the businessman's approach, because if you can make the price of the products of what you're buying to provide the products that we sell go down, everybody benefits, and that was the motivation. Maybe I should have been more sophisticated and had some way to slice that in a different way, but it just wasn't true.

Q: I guess where I'm getting to beyond, y'know sort of beyond that, is that y'know Steve has told us, I think, that we don't know where these words came from and we're trying to find out...

A: If you're talking about these three words here, these three bullets? Those words we read?

Q: Those bullets and this bullet.

A: Which one?

Q: Where we are. This one, and the three above it. Whether AT&T, y'know, if we go ask them, why did you write those and just call them BellSouth issues, whether it's BellSouth's position that they don't know where those words came from and AT&T was not accurate and shouldn't have written those words is what, you know?

A: The fact is, let's just take them one at a time. Any year that I've been involved, that first bullet is true. Any year.

This year. As it was true whenever this took place. The second bullet, as long as I've been in this industry that has been true, because we've always been under one form or another rate base rate return regulation, where if you are in rate base rate of return regulation, your profits are related to your capital investment or at least as much of it as goes in the rate base. The third bullet is just a fact. The FCC did indeed change their accounting rules with regard to right to use. So there's nothing magic about where those came from. Other than the third bullet, they are exactly true today. So, nothing very remarkable about those three statements is the point I'm making. And this, we were saying, as I'm sure I was saying or my folks were saying, that the five ESS were simply not being competitive against its competition. Now, if inside AT&T, they want to conclude that the reason the price is being perceived as noncompetitive is because they have decided to make their allocation a certain way, that's an internal AT&T issue. I can't, I mean, it's not my issue one way or the other. That's a conclusion that they made for themselves, I guess. So when you say, don't know where the statements came from, there's nothing remarkable about the statements. There's nothing mysterious or remarkable, to me anyway. Maybe you're seeing something there that I...

[end of side one of tape]

... they put in on. I'm just trying to tell you they're just truisms. They're not...

Q: Stating the obvious?

A: Yeah, they're just staying the obvious. And on this, if they decided, I mean it's like, it's like any vendor that had a product comprised on two pieces. If they want to say, gosh, the customer is complaining about this piece being too high, I think, and therefore, let's lower this one a little bit and raise this one a little bit, and that's internal to them, and what I'm looking at is adding the two together to get them to come down, I can't, I mean, that just the way things worked out.

Q: What is the effect of the BRCS feature dropping from   to What's the effect of that?

A: (Manion): Uh, associated with the price of the switch?

Q: Marketing the features, whatever? What's the impact on your customers?

A: (Manion): Well, I'd just have to, I mean, I can't answer that. From a procurement standpoint, the effect would be, depending on the amount of penetration of that feature in a particular switch, would be how much we would save,   or whatever,   for every line of Centrex or BRCS that we deployed where we used to pay   a line for it, we pay Some switches have zero ESSX in it, other ones have 10,000 lines. So, you know, that effect. As far as the marketings